

# GSAssociates

Business Partners and Certified Public Accountants



Independent Auditor's System Report  
For Payphone Compensation  
As required by FCC Order 03-235  
Docket No. 96-128



# Table of Contents

TABLE OF CONTENTS ..... 2

INDEPENDENT AUDITOR’S REPORT ..... 3

SYSTEM AUDIT REPORT ..... 3

OVERVIEW OF SYSTEM AUDIT REQUIREMENTS ..... 4

AUDIT PROCESS & PROCEDURES ..... 5

    PAYPHONE COMPENSATION POLICIES & PROCEDURES ..... 6

    RESPONSIBLE DEDICATED STAFF ..... 6

    DATA MONITORING PROCEDURES ..... 7

    COMPENSATION ASSURANCE PROTOCOLS ..... 7

*COMPENSABLE CALL FILE AND REPORTING* ..... 8

    DISPUTE RESOLUTION PROCEDURES ..... 8

COMPENSATION VERIFICATION ..... 9

AUDIT CONCLUSIONS ..... 9

    FCC RELEVANT RULES ACCURATELY STATED ..... 9

    ESTABLISHED SECURITY PROTOCOLS ..... 9

    AUDIT FINDINGS ..... 10

APPENDICES ..... 11

## Independent Auditor's Report System Audit Report

Senior Management  
XO Communications, LLC

At the request of the management of XO Communications, LLC, we have examined the call tracking systems of XO Communications LLC and its interexchange and local exchange carrier operating subsidiaries (collectively "XO") for payphone calls in compliance with FCC Order 03-235, Docket No 96-128. XO management is responsible for compliance with those requirements. (See Appendix 'B') Our responsibility is to express an opinion on XO's compliance based on our examination.

Our examination included procedures to obtain reasonable assurance about whether the controls included in our audit were suitably designed to achieve the control objectives – namely, that the call tracking system of XO accurately tracks payphone calls to completion and that XO satisfactorily complied with and applied these controls and such controls will be placed in operation consistently in the future.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence of compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on XO's compliance with specified requirements.

In our opinion, XO complied, in all material respects, with the aforementioned requirements for the period mentioned through June 30, 2009. XO has sufficient controls in place to provide reasonable assurance that it will achieve the control objectives of this audit, namely that the XO call tracking system accurately tracks payphone calls to completion.

The description of policies & procedures concerning Payphone Compensation at XO, as well as information concerning tests of the operating effectiveness includes the period of Q2 2009. Information concerning payments made includes the period through Q1 2009. Future projection of such information is subject to the inherent risk that, because of change, the description may no longer portray those procedures in existence. The potential effectiveness of specific controls at XO is subject to inherent limitations and, accordingly, errors or fraud may occur and not be detected. Furthermore, the projection of any conclusions, based on our findings, to future periods is subject to the risk that, (1) changes made to the system or controls, (2) changes in processing requirements, or (3) changes required because of the passage of time may alter the validity of such conclusions.

This report is intended solely for the information and use of XO and its designees, and is not intended to be and should not be used by anyone other than the specified party.

*GSAssociates, CPAs*

GSAssociates  
August 25, 2009



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## **Overview of System Audit Requirements**

This System Audit Report covers FCC Order (03-235, Docket No 96-128), effective July 1, 2004 (the “Order”), requiring Interexchange Carriers (“IXCs”), incumbent local exchange carriers (“LECs”), competitive local exchange carriers (“CLECs”) and Switch Based Resellers (herein collectively or individually referred to as a “Carrier”), to establish and maintain a comprehensive Call Tracking System (“CTS”) which accurately reports and compensates Payphone Service Providers (“PSPs”).

The Order calls for an independent third party audit report in conformity with AICPA standards. The independent auditor’s report shall conclude whether the Carrier complied, in all material respects, with the factors set forth (below) regarding the CTS as follows:

- 1) Whether the Carrier’s procedures accurately reflect the Commission’s rules, including the attestation reporting requirements.
- 2) Whether the Carrier has a person or persons responsible for tracking, compensating, and resolving disputes concerning payphone completed calls.
- 3) Whether the Carrier has effective data monitoring procedures.
- 4) Whether the Carrier adheres to established protocols to ensure that any software, personnel, or any other network changes do not adversely affect its payphone call tracking ability.
- 5) Whether the Carrier has created a compensable payphone call file by matching call detail records against payphone identifiers.
- 6) Whether the Carrier has procedures to incorporate call data into required reports.
- 7) Whether the Carrier has implemented procedures and controls needed to resolve disputes.
- 8) Whether the independent third-party auditor can test all critical controls and procedures to verify that errors are insubstantial.
- 9) Whether the Carrier’s have adequate and effective business rules for implementing and paying payphone compensation.



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## **Audit Process & Procedures**

Our audit tests and reports on all nine (9) factors listed in the Order. The guidelines used to conduct and prepare the report are established in the AICPA's Statements on Standards for Attestation Engagements ("SSAE"), specifically, SSAE 10, AT Section 101 Attest Engagements and AT Section 601 Compliance Attestation.

Those standards required that we:

- 1) Have adequate technical training and proficiency in the attest function.
- 2) Perform the attest function using practitioners having adequate knowledge of the subject matter.
- 3) Evaluate the subject matter against suitable criteria such as:
  - a) *Objectivity* – free of bias
  - b) *Measurability* – reasonable consistent measurements, qualitative or quantitative, of subject matter.
  - c) *Completeness* – sufficiently complete so that relevant factors that would alter a conclusion about subject matter are not omitted.
  - d) *Relevance* – criteria relevant to the subject matter.
- 4) Maintain an Independent mental attitude in all matters relating to the engagement.
- 5) Exercise due professional care in the planning and performance of the engagement.
- 6) Obtain sufficient evidence to provide reasonable basis for our conclusion expressed in the report.

XO has designed and implemented an in-house call tracking system that captures payphone originated long distance calls. National Payphone Clearinghouse ("NPC") is contracted by XO to process XO-provided call detail records ("CDR"), compensate PSPs and satisfy all FCC-mandated reporting requirements. Attached is NPC's SAS 70 report as Appendix "A". XO's use of a payphone clearinghouse does not release or transfer any of its obligations to comply with all nine (9) factors of the Order.

The scope of this audit as it relates to compensation is through March 31, 2009, which is the latest quarter that XO has processed and remitted compensation to PSP's. The scope of this audit as it relates to XO's processes and procedures subject to the Order is through June 30, 2009.



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### ***PAYPHONE COMPENSATION Policies & Procedures***

XO has established and documented policies & procedures specifically in compliance with the Order. These include, but are not limited to:

1. Backup Policy
2. Core Security / Critical Data Requirements Policy
3. Software Quality Testing Process
4. Change Control Policy
5. Host / Server Security Policy
6. Password Policy
7. Physical Security Policy
8. Information Access Control Policy
9. Monitoring Policy
10. Firewall Policy

XO has previously provided GSA with these documents and has provided GSA with written attestation that there have been no unauthorized or significant changes to company policies which would affect the processing of payphone compensation. XO further attests that no changes can be made to the software controlling the call tracking system without appropriate approvals.

### ***Responsible Dedicated Staff***

XO has dedicated staff responsible for tracking, compensating, reporting and resolving disputes concerning completed calls as follows:

1. Lisa Youngers, Vice President Federal Affairs; and Kevin Span, Carrier Relations Senior Manager, are responsible for drafting necessary business requirements.
2. Danny Sanster, IT Senior Manager, is responsible for developing and maintaining systems to create payphone call records from switch records.
3. Malachy Duggan, Lead Analyst-Carrier Management, is responsible for implementing and maintaining procedures to check the validity of identified payphone records.
4. Danny Sanster, IT Senior Manager, is responsible for implementing & maintaining procedures that create final compensation data sets.
5. Annaliza Galang, a Telco Audit Supervisor, is responsible for developing compensation tracking reports.
6. Annaliza Galang, a Telco Audit Supervisor, is responsible for dispute resolutions.



### ***Data Monitoring Procedures***

XO has developed a systematic reporting process to generate monthly and quarterly reports on payphone call counts, numbers called, and info digits used.

These reports reflect:

- a) Trends of switch traffic volumes entering their payphone compensation systems.
- b) Possible fraud on potential illegitimate payphone calls.
- c) Trends of excluded calls.
- d) The capability to develop customized reports to help resolve disputes.
- e) Capacity for other appropriate trending reports.

GSA has reviewed and documented these reports as valid and functional. Mr. Duggan indicated that through XO's IT department XO is able to request customized reports for reporting and monitoring purposes. GSA documented this by requesting data not normally produced through the call tracking system and reporting data files to NPC.

### ***Compensation Assurance Protocols***

XO has established procedures which guarantee that the company will remain in compliance with current FCC requirements. These procedures ensure that software, personnel, or any other network changes or additions to the payphone compensation process are done in accordance with guidelines and approvals documented in the aforementioned procedure section and do not adversely affect its call tracking capabilities.

GSAssociates has previously reviewed these procedures with the client and finds them adequate and comprehensive. XO has attested to the fact that there have not been any significant or undocumented changes to the program code, stored procedures or report systems for the call tracking system or payphone compensation system to date.



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### ***Compensable Call File and Reporting***

XO extracts all data directly from its CDR and prepares online reports and databases for utilization in the compensation process. XO compiles the appropriate call detail in a predetermined format required by NPC, and electronically transmits this data to NPC for matching and payment. This is a monthly process due to the volume of calls processed by the Carrier. The monthly data is compiled and stored. When a complete quarter has been accumulated, this data is formatted and transmitted to NPC. GSA reviewed the NPC data files for Q12009 and found them to be complete and accurate.

XO also provided their raw CDR file. Our review of the file determined that it contained all the necessary data to perform the ANI match and to prepare detailed reports for compensation to each separate PSP or Aggregator. GSA also reviewed the compensation results files provided to XO by NPC. The data provided to NPC and the results file from NPC matched. The result file contains total records; total calls, total ANIs as well as the subset of payphone originated calls and matched ANIs. GSA also received and reviewed the quarterly compensation invoice from NPC to XO, describing the amount needed to fund payments to the PSPs. These files and documents are complete and accurate.

### ***Dispute Resolution Procedures***

XO has assigned its representative, Annaliza Galang, Telco Audit Supervisor, as the individual responsible for interfacing with NPC. NPC is the first contact for a PSP to request additional information regarding payphone-originated calls. NPC has previously provided its detail procedure for handling disputes from PSPs, and has verified that the procedure was in use through Q1 2009. If a dispute arises where NPC cannot determine an appropriate answer to a payment question, they are directed to the XO responsible party. This process is further outlined in XO's Dispute Resolution procedure.

GSA has determined that the responsible party is knowledgeable and has the tools available to complete this function. XO has verified that there are no outstanding disputes that have been brought to XO's attention.





## **Compensation Verification**

GSA has determined that XO has properly compensated PSP's through the 1<sup>st</sup>. Quarter of 2009.

GSA has reviewed Q1 2009 payment files and verified those files against XO provided CDR and found no discrepancies. In addition, NPC has verified that funds were transferred to NPC and remitted to the appropriate PSPs.

## **Audit Conclusions**

### ***FCC Relevant Rules Accurately Stated***

XO has established, defined, and documented in accordance with relevant FCC Rules each of the following:

- Per-call rate.
- Per-phone requirements.
- Calls included as compensable calls
- Definition of completed call.
- Reporting requirements.
- Data Storage Requirements.

### ***Established Security Protocols***

XO has implemented security protocols to limit access to call tracking systems in a controlled environment to authorized personnel.

Monitoring tracking systems have been installed to limit access to the company's call tracking system.

Access to compensation systems is controlled and monitored as well as limited to authorized personnel through security measures which have been implemented.



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### *Audit Findings*

XO is a national provider of local and long distance telecommunications services to businesses, large enterprises and telecommunications carriers. XO delivers its services over its own network of metropolitan fiber rings and long haul fiber optic facilities and through the use of facilities and services leased or purchased from third party carriers, including incumbent local exchange carriers. XO is wholly owned by XO Holdings, Inc. XO Holdings, a publicly traded holding company. Through its subsidiaries, primarily XO Communications Services, Inc., XO is authorized to provide intrastate interexchange services in 49 states and to provide competitive local exchange services in 48 states as well as the District of Columbia. GSA has tested and documented that the compensation system in use as of the date of this report is effective and complete. GSA has validated payments made for Q1 of 2009. XO is in compliance for the period audited and compensation has been appropriately made to the PSPs or Aggregators through March 31, 2009.

## APPENDICES

### Appendix 1



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#### Independent Service Auditors' Report

The Board of Directors of Cincinnati Bell, Inc.:

We have examined the accompanying description of controls of the National Payphone Clearinghouse ("NPC"). Our examination included procedures to obtain reasonable assurance about whether (1) the accompanying description presents fairly, in all material respects, the aspects of NPC's controls that may be relevant to a user organization's internal control as it relates to an audit of financial statements; (2) the controls included in the description were suitably designed to achieve the control objectives specified in the description, if those controls were complied with satisfactorily and user organizations applied the controls contemplated in the design of NPC's controls; and (3) such controls had been placed in operation as of March 31, 2009. The control objectives were specified by the management of the NPC. Our examination was performed in accordance with standards established by the American Institute of Certified Public Accountants and included those procedures we considered necessary in the circumstances to obtain a reasonable basis for rendering our opinion.

In our opinion, the accompanying description of the aforementioned controls presents fairly, in all material respects, the relevant aspects of NPC's controls that had been placed in operation as of March 31, 2009. Also, in our opinion, the controls, as described, are suitably designed to provide reasonable assurance that the specified control objectives would be achieved if the described controls were complied with satisfactorily and user organizations applied the controls contemplated in the design of NPC's controls.

In addition to the procedures we considered necessary to render our opinion as expressed in the previous paragraph, we applied tests to specific controls, which are presented in section III of this report, to obtain evidence about their effectiveness in meeting the related control objectives, described in section III, during the period from April 1, 2008 to March 31, 2009. The specific controls and the nature, timing, extent, and results of the tests are listed in section III. This information has been provided to user organizations of the NPC and to their auditors to be taken into consideration, along with information about the internal control at user organizations, when making assessments of control risk for user organizations. In our opinion, the controls that were tested, as described in section III, were operating with sufficient effectiveness to provide reasonable, but not absolute, assurance that the control objectives specified in section III were achieved during the period from April 1, 2008 to March 31, 2009.

The relative effectiveness and significance of specific controls at the NPC and their effect on assessments of control risk at user organizations are dependent on their interaction with the controls and other factors present at individual user organizations. We have performed no procedures to evaluate the effectiveness of controls at individual user organizations.

The description of controls at the NPC is as of March 31, 2009 and information about tests of the operating effectiveness of specific controls covers the period from April 1, 2008 to March 31, 2009. Any projection of such information to the future is subject to the risk that, because of change, the description may no longer portray the controls in existence. The potential effectiveness of specific controls at the NPC is subject to inherent limitations, and accordingly, errors or fraud may occur and not be detected.

## Appendix 1 (continued)



Furthermore, the projection of any conclusions, based on our findings, to future periods is subject to the risk that changes made to the system or controls, or the failure to make needed changes to the system or controls, may alter the validity of such conclusions.

The information in section IV of this report is presented by the NPC to provide additional information and is not a part of the NPC's description of controls placed in operation. The information in section IV has not been subjected to the procedures applied in the examination of the description of the controls applicable to the processing of transactions for user organizations, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the management of the NPC, its user organizations, and the independent auditors of its user organizations, and is not intended to be, and should not be, used by anyone other than these specified parties.

KPMG LLP

May 1, 2009

## Appendix 2



XO Communications, LLC

**Report of Management on Compliance with Applicable Requirements  
of Section 64.1310(a)(1) of the FCC's Rules and Regulations**

The management of XO Communications, LLC and its long distance and local exchange carrier operating subsidiaries (collectively, the "Company") are responsible for establishing and maintaining adequate systems and processes for its Pay Telephone Call Tracking System and for ensuring the Company's compliance with the applicable requirements of Section 64.1310(a)(1) of the FCC Report and Order in CC Docket No. 96-128, released on October 3, 2003, regarding *The Pay Telephone Reclassification and Compensation Provisions of the Telecommunications Act of 1996*.

Management has performed an evaluation of Company's compliance with the applicable requirements of CC Docket No. 96-128 using the criteria in 64.1320(c) as the framework for the evaluation. Based on this evaluation, we assert that the Company complies with all applicable requirements of CC Docket No. 96-128.

We have prepared the required assertion statements relating to the Company Payphone Call Tracking Systems.

Company is acknowledged as the "Completing Carrier" in the following call scenarios:

- Local Toll and Local Operated assisted calls as well as access code or subscriber toll-free payphone calls with the Info Digits (7, 27, and 70) completed by Company ("0" indicator).

All assertions for Company are from the point Company has visibility to the call tracking data.

Company utilizes a payment clearinghouse for payphone compensation settlement. As such, Factors (6) and (7) in their entirety and Factors (8) and (9) collectively are covered under the SAS-70 compliance report issued for the clearinghouse. Company has procedures in place to verify that controls and procedures relating to these assertions have been established and maintained. An independent accounting firm has performed an independent assessment of the effectiveness of such controls.

Page 1 of 3

Page 1 of 2

## Appendix 2 (continued)

Company makes the following assertions where it is identified as the Completing Carrier:

**FCC Compliance Factor (1) – Company’s (“Completing Carrier”) procedures accurately track calls to completion.**

**FCC Compliance Factor (2) – Company (“Completing Carrier”) has a person or persons responsible for tracking, compensating, and resolving disputes concerning payphone-completed calls.**

**FCC Compliance Factor (3) - Company (“Completing Carrier”) has effective data monitoring procedures.**

**FCC Compliance Factor (4) - Company (“Completing Carrier”) adheres to established protocols to ensure that any software, personnel, or any other network changes do not adversely affect its payphone call tracking ability.**

**FCC Compliance Factor (5) – Company (“Completing Carrier”) creates a compensable payphone call file by using internal customer information matched to toll free records. This file contains all payphone traffic with payphone identifiers.**

**FCC Compliance Factor (6) – Company (“Completing Carrier”) has procedures to incorporate call data into required reports and making payment to payphone service providers (“PSPs”).**

**FCC Compliance Factor (7) - Company (“Completing Carrier”) has implemented procedures and controls needed to resolve payphone compensation disputes.**

**FCC Compliance Factor (8) – Critical controls and procedures have been tested by Company (“Completing Carrier”) to verify that errors are insubstantial.**

**FCC Compliance Factor (9) – Company (“Completing Carrier”) has in place adequate and effective business rules for implementing and paying payphone compensation, including rules used to: (i) identify calls originated from payphones; (ii) identify compensable payphone calls; (iii) identify incomplete or otherwise non-compensable calls; and (iv) determine the identities of the payphone service providers to which Completing Carrier owes compensation.**

**Required Disclosures per 64.1320(d)**

- The Company has criteria for identifying calls originating from payphones which include a call record info-digit identification of 7, 27, or 70;
- The Company has criteria for identifying compensable payphone calls which include all calls with info-digits 7, 27 or 70 and call duration greater than 0;
- The Company has criteria for identifying incomplete or otherwise noncompensable calls which include: a) calls that do not have info-digits 7, 27, or 70, and b) calls with duration of 0;

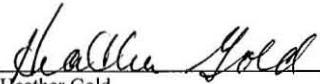
Page 2 of 3



Appendix 2 (continued)

- The Company uses the National Payphone Clearinghouse ("NPC");
- The Company and/or NPC acting upon the Company's behalf has criteria used to determine the identity of the payphone service providers to which the Company ("Completing Carrier") owes compensation; and
- In order to compensate PSPs, the Company needs each PSP to provide information to NPC that includes the ANIs associated with each PSP's payphones.

Dated: August 25, 2009

  
Heather Gold  
Senior Vice President, External Affairs  
XO Communications, LLC